

**OWOSSO TOWNSHIP-CALEDONIA TOWNSHIP
UTILITY AUTHORITY**

FINANCIAL STATEMENTS

DECEMBER 31, 2006

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Owosso-Caledonia Utility Authority	County SHIAWASSEE
Fiscal Year End 12/31/06	Opinion Date 04/24/07	Date Audit Report Submitted to State 05/03/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☐ ☒ The audit opinion is UNQUALIFIED.
13. ☐ ☒ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) DEMIS AND WENZLICK, P.C.		Telephone Number 989-723-8227	
Street Address 217 N WASHINGTON STREET, SUITE 201		City OWOSSO	State MI
Zip 48867		License Number 1101020651	
Authorizing CPA Signature <i>Lori S. Chant, CPA</i>		Printed Name LORI S. CHANT	

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DEMIS and WENZLICK, P.C.

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INDEPENDENT AUDITOR'S REPORT

The Owosso Township-Caledonia Township
Utility Authority
Shiawassee County, Michigan

We have audited the accompanying general-purpose financial statements of the Owosso Township-Caledonia Township Utility Authority, as of and for the year ended December 31, 2006. These general-purpose financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities and business-type activities as required by the Governmental Accounting Standards Board (GASB 34). Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. GASB 34 requires management's discussion and analysis which also has not been prepared.

In our opinion, except for the non-application of GASB 34, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Owosso-Caledonia Utility Authority, as of December 31, 2006, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our report of comments and recommendations has been submitted under separate cover dated April 24, 2007.

Demis and Wenzlick, P.C.

Certified Public Accountants

Owosso, Michigan
April 24, 2007

OWOSSO TOWNSHIP-CALEDONIA TOWNSHIP UTILITY AUTHORITY
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
 DECEMBER 31, 2006

ASSETS:

Petty Cash	\$ 100
Cash in Bank	118,872
Accounts Receivable:	
Customers	62,413
Local Governments	2,146
Prepaid Insurance	<u>15,712</u>
TOTAL CURRENT ASSETS	\$ 199,243

Fixed Assets (Net of Accumulated
 Depreciation of \$4,648,137)
 TOTAL ASSETS

8,552,649
\$ 8,751,892

LIABILITIES:

Accounts Payable	\$ 2,494
TOTAL CURRENT LIABILITIES	\$ 2,494

EQUITY:

Contributed Equity (Net of Amortization of \$4,540,284)	\$ 8,384,164	
Retained Earnings	<u>365,234</u>	<u>8,749,398</u>
		<u>\$ 8,751,892</u>

The accompanying notes are an integral
 part of the financial statements.

OWOSSO TOWNSHIP-CALEDONIA TOWNSHIP UTILITY AUTHORITY
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS
YEAR ENDED DECEMBER 31, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL (OVER) UNDER BUDGET</u>
OPERATING REVENUES:			
Sewer Charges – Owosso			
Twp. Customers	\$ 300,000	\$ 254,825	\$ 45,175
Sewer Charges – Caledonia			
Twp. Customers	300,000	232,788	67,212
Penalties	16,000	16,587	(587)
Reimbursements from Other			
Local Governments	200,000	10,077	189,923
Water System – Owosso	4,000	4,000	-0-
Fees and Permits	800	450	350
Interest Income	12,000	4,045	7,955
Miscellaneous Income	<u>6,600</u>	<u>7,756</u>	<u>(1,156)</u>
TOTAL OPERATING REVENUES	\$ 839,400	\$ 530,528	\$ 308,872
OPERATING EXPENSES:			
AUTHORITY BOARD:			
Meetings, Hourly Pay	\$ 8,010	\$ 7,245	\$ 765
Office Supplies, Postage	1,350	380	970
Professional Services	4,000	3,700	300
Legal Services	5,000	1,134	3,866
Insurance	2,900	2,176	724
Engineering	1,500	-0-	1,500
Social Security	<u>622</u>	<u>554</u>	<u>68</u>
TOTAL AUTHORITY BOARD	\$ 23,382	\$ 15,189	\$ 8,193
PUBLIC WORKS:			
Office Employee	\$ 200	\$ -0-	\$ 200
Social Security	16	-0-	16
Insurance	600	502	98
Office Supplies	4,875	2,429	2,446
Miss Dig Expense	1,000	387	613
Miscellaneous	1,300	339	961
Rent	3,600	3,600	-0-
Utilities	6,400	5,087	1,313
Repairs & Maintenance	<u>1,725</u>	<u>1,159</u>	<u>566</u>
TOTAL PUBLIC WORKS	\$ 19,716	\$ 13,503	\$ 6,213

The accompanying notes are an integral part of the financial statements.

OWOSSO TOWNSHIP-CALEDONIA TOWNSHIP UTILITY AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
YEAR ENDED DECEMBER 31, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL (OVER) UNDER BUDGET</u>
SEWER DEPT. – PERSONNEL:			
Admin. Salary	\$ 43,315	\$ 43,015	\$ 300
Employee Salary	29,681	28,381	1300
Social Security	5,589	5,462	127
Unemployment	2,200	785	1,415
Worker's Comp. & Health Insurance	<u>25,900</u>	<u>18,443</u>	<u>7,457</u>
TOTAL SEWER PERSONNEL	\$ 106,685	\$ 96,086	\$ 10,599
SEWER DEPT. – OTHER:			
Office Supplies, Postage and Miscellaneous	\$ 3,000	\$ 2,675	\$ 325
Truck Maintenance	17,000	410	16,590
Insurance	7,800	6,515	1,285
Maintenance on Lines	2,500	1,538	962
Equipment	50,000	-0-	50,000
Gasoline & Mileage	<u>4,000</u>	<u>3,177</u>	<u>823</u>
TOTAL SEWER – OTHER	\$ 84,300	\$ 14,315	\$ 69,985
Depreciation Expense	\$ -0-	\$ 181,713	\$(181,713)
TRANSFERS:			
Owosso Township	\$ 184,800	\$ 144,305	\$ 40,495
Caledonia Township	<u>184,800</u>	<u>142,643</u>	<u>42,157</u>
TOTAL TRANSFERS	\$ 369,600	\$ 286,948	\$ 82,652

The accompanying notes are an integral part of the financial statements.

OWOSSO TOWNSHIP-CALEDONIA TOWNSHIP UTILITY AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS (CONTINUED)
YEAR ENDED DECEMBER 31, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL (OVER) UNDER BUDGET</u>
PUMPING & METERING STATIONS:			
500 Elizabeth Drive	\$ 3,800	\$ 3,704	\$ 96
933 Terrace Drive	3,000	1,839	1,161
2621 W. Main	3,000	914	2,086
3188 W. Main	3,000	1,392	1,608
1276 Chestnut	30,300	5,955	24,345
127 N. State	3,000	1,162	1,838
1504 E. Main	97,400	13,607	83,793
1414 Chippewa Trail	3,000	327	2,673
1655 N. Hickory	3,000	473	2,527
TOTAL PUMPING & METERING	<u>\$ 149,500</u>	<u>\$ 29,373</u>	<u>\$ 120,127</u>
TOTAL DISBURSEMENTS	<u>\$ 753,183</u>	<u>\$ 637,127</u>	<u>\$ 116,056</u>
NET INCOME (LOSS)	<u>\$ 86,217</u>	<u>\$ (106,599)</u>	<u>\$ 192,816</u>
Add Depreciation on Fixed Assets			
Acquired by Grants		<u>171,126</u>	
INCREASE IN RETAINED EARNINGS		<u>\$ 64,527</u>	
Retained Earnings:			
Beginning of Year		<u>300,707</u>	
RETAINED EARNINGS END OF YEAR		<u>\$ 365,234</u>	

The accompanying notes are an integral
part of the financial statements.

OWOSSO TOWNSHIP-CALEDONIA TOWNSHIP UTILITY AUTHORITY
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:

Net Loss			\$(106,599)
Add (Deduct) Items Not Affect Cash:			
Depreciation Expense	\$ 181,713		
Increase in Accts. Rec.	(4,078)		
Increase in Prepaid Insurance	(209)		
Decrease in Accts. Payable	<u>(16,424)</u>		<u>161,002</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES			\$ 54,403

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of Equipment		\$ (57,298)
NET LOSS IN CASH AND CASH EQUIVALENTS		\$ (2,895)

Cash and Certificate of Deposit Balance at Beginning of Year	121,867
CASH BALANCE AT END OF YEAR	<u>\$ 118,972</u>

DISCLOSURE OF ACCOUNTING POLICY:

For purposes of the Statement of Cash Flows, the organization considers all highly liquid debt instruments, such as certificates of deposit, to be cash equivalents.

The accompanying notes are an integral
part of the financial statements.

OWOSSO TOWNSHIP-CALEDONIA TOWNSHIP UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Owosso Township-Caledonia Township Utility Authority was incorporated as a municipal corporation on February 22, 1974, by the two townships. The Authority was organized to construct and operate the sewage disposal system in the two townships.

The accounting policies of the Owosso Township-Caledonia Township Utility Authority conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

FUND ACCOUNTING

The Authority has only one fund, which is the enterprise fund. This fund is described in the following paragraph:

PROPRIETARY FUND

Enterprise Fund – Enterprise Fund is used to account for the operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (Expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

FIXED ASSETS

All proprietary funds are accounted for on a cost of services or “capital maintenance” measurement focus. This means that all assets and liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

COMPENSATED ABSENCES

Full-time employees are allowed 40 hours of vacation time after 6 months and 80 hours after one year. Starting in the sixth year, additional vacation time accrues at the rate of 8 hours per year times the number of years over five years until an additional 80 hours is earned, at which time no more vacation time shall accrue. Vacations run from January 1, through December 31, and must be taken within the year or be forfeited.

Sick time and/or personal time accrues at ½ day per month up to a maximum of 10 days. Any unused sick or personal days can be carried over to the next year, or the employee may choose to have some or all time paid at year end. Payment is limited to one-half time accumulated.

There was no accrual for unused sick or personal time at December 31, 2006, as it is immaterial.

POST RETIREMENT BENEFITS

The Authority has no policy regarding post-retirement benefits. The Authority currently pays up to \$625.00 per month in insurance for each employee. No post-retirement benefits are paid currently.

OWOSSO TOWNSHIP-CALEDONIA TOWNSHIP UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

BUDGETS AND BUDGETARY ACCOUNTING

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the beginning of the fiscal year, the treasurer submits to the Authority Board a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted by the Authority to obtain taxpayer comments.
3. Prior to January 1, the budget is legally enacted through Board approval.

FIXED ASSETS

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated lives using the straight line method. The details of fixed assets and the estimated useful lives used in computing depreciation at December 31, 2006, are shown below:

<u>CLASSIFICATION</u>	<u>COST</u>	<u>ACCUMULATED DEPRECIATION</u>	<u>NET BOOK VALUE</u>	<u>ESTIMATED USEFUL LIVES</u>
Office Equipment	\$ 11,478	\$ 10,910	\$ 568	5 yrs
Machinery & Equip.	179,401	153,479	25,922	5 – 9 yrs
Sewer System	<u>13,009,907</u>	<u>4,483,748</u>	<u>8,526,159</u>	20 – 75 yrs
	<u>\$13,200,786</u>	<u>\$ 4,648,137</u>	<u>\$ 8,552,649</u>	

The provision for depreciation charged to operations for the year ended December 31, 2006, amounted to \$181,713.

BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expense are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurements focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. These revenues are recognized when they become measurable and available as net current assets.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is accumulated unpaid vacation, sick pay, and other employee amounts which are not accrued.

OWOSSO TOWNSHIP-CALEDONIA TOWNSHIP UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF ACCOUNTING (CONTINUED)

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

For financial statement purposes, monies the Authority receives in a fiduciary capacity for the townships is netted against monies paid to the townships.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B – REPORTING ENTITY

For financial reporting purposes, in conformance with NCGA Statement No. 3, Defining the Governmental Reporting Entity, the Authority includes all funds, account groups, agencies, boards, commissions and authorities that are controlled by or dependent on the Authority's executive or legislative branches. Control by or dependence on the Authority was determined on the basis of budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the Authority to finance any deficits that may occur or receipt of significant subsidies from the Authority.

Based on the foregoing criteria, there are no organizations that need to be included in the Authority's annual report.

NOTE C – CONTRIBUTED EQUITY

The details of contributions in aid of construction (contributed equity) as of December 31, 2006, are shown below:

<u>CLASSIFICATION</u>	<u>COST</u>	<u>ACCUMULATED AMORTIZATION</u>	<u>NET</u>
Federal Governments	\$ 7,902,126	\$ 2,769,578	\$ 5,132,548
State Governments	519,021	181,610	337,411
Local Governments	4,274,397	1,498,304	2,776,093
Construction Interest	<u>228,904</u>	<u>90,792</u>	<u>138,112</u>
	<u>\$12,924,448</u>	<u>\$ 4,540,284</u>	<u>\$ 8,384,164</u>

The Authority has elected to amortize depreciation relative to the grants against contributed capital. Accordingly, these costs are amortized over a 75 year life.

OWOSSO TOWNSHIP-CALEDONIA TOWNSHIP UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECMEBER 31, 2006

NOTE D – TRANSFERS TO OWOSSO AND CALEDONIA TOWNSHIP

The Authority remitted sewer collections back to the Townships. The rates are 60% to Caledonia Township and 60% to Owosso Township. The township uses the money to pay for the operations of the waste water facility by the City of Owosso. The townships are related parties to the Authority.

NOTE E – OPERATING LEASE

The Authority leases the office and garage from Caledonia Township. The monthly payment is \$300. The lease has been classified as an operating lease. Caledonia Township is a related party.

NOTE F – CASH AND CERTIFICATES OF DEPOSIT

The Authority's deposits consist of interest bearing checking accounts. At year end, the carrying amounts of these deposits were \$118,872 and the balance was \$136,436.

The Authority's deposits at December 31, 2006, consisted of cash at one financial institution:

<u>INSTITUTION A</u>	<u>AMOUNT</u>	<u>FDIC INSURED</u>	<u>UNINSURED</u>
Cash	<u>\$ 136,436</u>	<u>\$ 100,000</u>	<u>\$ 36,436</u>

NOTE G – EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18 (1) as amended, provides that a local unity shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Authority's actual expenses and budgeted expenses for the budgetary funds have been shown on an activity basis. The approved budgets of the Authority for these budgetary funds were adapted to the activity level.

During the year ended December 31, 2006, the Authority incurred expenditures in certain budgetary items which were in excess of the amounts appropriated as follows:

<u>ACTIVITY</u>	<u>TOTAL APPROPRIATION</u>	<u>AMOUNT OF EXPENDITURE</u>	<u>BUDGET VARIANCE</u>
Depreciation	\$ -0-	\$ 181,713	\$ 181,712



DEMIS and WENZLICK, P.C.

Certified Public Accountants

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April 24, 2007

Members of the Board
Owosso Township-Caledonia Township Utility Authority
Shiawassee County, Michigan

In compliance with the provisions of Section 11 of Act 2, P.A. of 1968, we wish to render our report of recommendations which were formulated as a result to the examination our firm performed on the financial statements of the Owosso Township-Caledonia Township Utility Authority, for the year ended December 31, 2006.

BUDGET

The Michigan Public Act 621 of 1978 includes compliance requirements in budgeting. Expenditures, including depreciation, under this act, cannot exceed the budget. The total budgeted expenditures should not exceed their total budgeted revenues plus beginning fund balance. Expenditures include accounts payable at December 31, 2006.

We wish to thank the Board for the excellent cooperation we received in performing the Authority's audit. If we can be of any further assistance to the Authority in any future matter, please do not hesitate to contact us.

Sincerely yours,

Certified Public Accountants